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September 4, 2007

VIA ELECTRONIC FILING AND HAND DELIVERY

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Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Dr., Suite 100
Columbia, SC 29210

K. Chad Burgess, Esquire
Senior Counsel
South Carolina Electric and Gas Company
1426 Main Street
MC 130
Columbia, South Carolina 29201

Re: Audit Report of the South Carolina Office of Regulatory Staff's Examination of South Carolina Electric and Gas Company's Monitoring Report under the Natural Gas Rate Stabilization Act for the Twelve-Month Period Ending March 31, 2007

Docket No. 2006-157-G

Gentlemen:

The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the Natural Gas Rate Stabilization Act, S.C. Code Ann §§ 58-5-400, et seq. (Supp. 2006), ("RSA" or "The Act"), conducted an examination of South Carolina Electric and Gas Company's ("SCE&G" or "the Company") Monitoring Report for the twelve-month period ended March 31, 2007. The examination was conducted for the purpose of determining the Company's compliance with Section 58-5-430 and Section 58-5-440 of the Act.

The Company reported in its March 31, 2007, Quarterly Report a rate of return and return on common equity of 6.46% and 6.65%, respectively. The Company's calculation of additional revenue required to restore return on common equity to the 10.25% level authorized in its most

recent rate case (Order No. 2006-553 issued in Docket No. 2006-157-G on September 27, 2006) was an additional \$6,868,824.

Based upon its examination, ORS is proposing certain adjustments (see Schedule 2) to bring the Company's Monitoring Report into conformance with Section 58-5-430 and Section 58-5-440 of the Act.

The Company filing included expenditures related to a Customer Awareness Program. Upon examination, the ORS determined that those expenditures should not be included in the current RSA filing. ORS recommends that the Company file a petition with the S. C. Public Service Commission requesting a separate accounting order for the treatment of those expenditures.

The Office of Regulatory Staff calculated the Company's rate of return and return on common equity as 7.62% and 8.83%, respectively, after accounting and pro forma adjustments. Therefore, in accordance with the guidelines of the Act, ORS agrees that the Company is entitled to an increase in rates sufficient to achieve a return on common equity equaling 10.25% as authorized in Order No. 2006-553. Accordingly, based on ORS' examination of the Company's filing, ORS recommends that the Company's request be reduced by \$2,313,202 resulting in an increase to revenues of \$4,555,622. After the proposed increase, the Company will have the opportunity to earn a rate of return and return on common equity of 8.38% and 10.25%, respectively.

The following is a summary of the Dockets relative to the Company's most recent rate adjustments:

Date of Order	Docket Number	Amount Requested	Amount Granted	Approved Return on Equity
11-30-1989	89-245-G	\$11,333,163	\$10,139,314	12.75%
10-31-2005	2005-113-G	\$28,482,731	\$22,857,839	10.25%
09-27-2006	2006-157-G	\$18,175,727	\$17,437,394	10.25%

The following is a description of Schedules prepared by ORS as a result of its review of the Company's filing:

Schedule 1 presents the Company's operating experience, rate base and rates of return for the year ended March 31, 2007, and the accounting and pro forma adjustments which ORS has determined are necessary to normalize the Company's operations both before and after the effect of the requested increase. Utilizing the per book rate base of \$379,880,047 and income of \$24,544,557, ORS computed a rate of return on per book operations of 6.46% with a corresponding return on common equity of 6.66%. ORS accounting and pro forma adjustments increased Net Income for Return to \$28,767,465 and decreased rate base to \$377,375,430. The return on common equity computed by ORS after accounting and pro forma adjustments was 8.83%. After the adjustment for the proposed margin increase of \$4,555,622, Net Income for Return increased to \$31,624,063

while rate base remained at \$377,375,430. The rate of return on rate base computed by ORS after the adjustment for the proposed increase is 8.38%. The return on common equity is 10.25%.

Schedule 2 presents an explanation of the accounting and pro forma adjustments ORS considers necessary for the Company's report to conform with Section 58-5-430 and Section 58-5-440 of the Act. For comparative purposes, the adjustments of both the Company and ORS are presented.

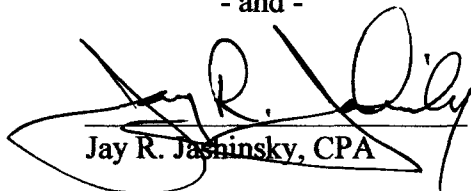
Schedule 3 presents the calculation of the weighted average cost of capital used by the Company in calculating its return on common equity both before and after its proposed increase. The rate base, as shown on Schedule 1, is allocated between long term debt, preferred stock and common equity according to the respective ratios as computed using the Company's capital structure as of March 31, 2007. The amount of total income for return necessary to cover an embedded cost rate of 6.23% on long term debt is computed to be \$10,405,743. The amount of total income for return necessary to cover an embedded cost rate of 6.41% on preferred stock is computed to be \$585,392. The remainder of the total income for return of \$17,776,330 is income to common equity. Such remainder produced a return of 8.83% on common equity before the requested increase. The overall cost of capital after accounting and pro forma adjustments, but prior to the requested increase, is 7.62%. Such overall cost equals the rate of return on rate base shown on Schedule 1.

After the proposed increase of \$4,555,622 income available to common equity increases to \$20,632,928 and return on common equity increases to 10.25%. Overall cost of capital as detailed in Schedule 3 equals 8.38%. Such overall cost of capital equals the rate of return on Schedule 1.

Respectfully submitted by,


Shannon Bowyer Hudson, Esquire

- and -


Jay R. Jashinsky, CPA

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2007

	<u>Description</u>	<u>Per SCE&G</u>	<u>Per ORS</u>
(A)	<u>Operating Revenues</u>		
1	To annualize revenues for lateral transfers from contract rates to published tariff rates	\$ 606,022	\$ 606,022
2	To adjust the gas unbilled revenue calculation based on corrected input volumes	715,040	715,040
3	To annualize revenues for the approved revenue increase. The adjustment for the months of April thru October 2006 was calculated based on the rate increase effective November 1, 2006 utilizing the method traditionally recognized by the Commission	8,152,076	8,152,076
4	To adjust revenues for demand cost not recovered	1,357,918	1,357,918
	<u>Total Operating Revenues</u>	<u>\$ 10,831,056</u>	<u>\$ 10,831,056</u>
(B)	<u>Operating and Maintenance Expense</u>		
5	To annualize wages and benefits	\$ 900,363	\$ 900,363
6	To remove 50% of employee & officer bonuses	(267,150)	(267,150)
7	To adjust employee benefits:		
a.	Annualize pension income	(268,972)	(268,972)
b.	Annualize other post employment benefits	(10,162)	(10,162)
8	To remove uncollectible gas cost expense	(755,481)	(755,481)
9	To remove operating expenses related to employee clubs	(63,152)	(63,152)
10	SCE&G proposes to annualize the customer awareness program. ORS proposes to exclude the customer awareness program proposed by SCE&G	1,893,937	0
11	To remove expenses associated with customer awareness program recorded during the test year	0	(273,778)
12	To annualize expenses related to LNG asset transfer	1,014,789	1,014,789
13	To annualize postage increase	47,589	47,589
14	ORS proposes to remove nonallowable expenses for ratemaking purposes	0	(113,078)
	<u>Total Operating and Maintenance Expense</u>	<u>\$ 2,491,761</u>	<u>\$ 210,968</u>
(C)	<u>Depreciation and Amortization Expense</u>		
15	To remove depreciation expense related to employee clubs	\$ (64,311)	\$ (64,311)
16	To recognize additional CWIP closed to plant	21,352	21,352
17	To annualize depreciation	1,547,626	1,547,626
18	To annualize amortization expense for propane air plant retirements	151,109	151,109
19	To annualize depreciation related to LNG assets	639,103	639,103
	<u>Total Depreciation and Amortization Expense</u>	<u>\$ 2,294,879</u>	<u>\$ 2,294,879</u>

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2007

<u>Description</u>		<u>Per SCE&G</u>	<u>Per ORS</u>
(D)	<u>Taxes Other Than Income</u>		
20	To annualize gross receipts tax on revenues from lateral transfers	\$ 3,154	\$ 3,154
21	To annualize payroll taxes for wages and benefits	63,912	63,912
22	To remove 50% of payroll taxes related to employee & officer bonuses	(24,807)	(24,807)
23	To annualize gross receipts tax for unbilled gas revenue	3,721	3,721
24	To annualize property tax expense	1,487,392	1,487,392
25	To annualize gross receipts tax on proposed revenues increase	42,423	42,423
26	To adjust gross receipts tax for demand cost not recovered	7,067	7,067
	<u>Total Taxes Other Than Income</u>	<u>\$ 1,582,862</u>	<u>\$ 1,582,862</u>
(E)	<u>State Income Taxes:</u>		
27	To adjust state income taxes (rate of 5%) to reflect the impact on income for adjustments to operating revenues and expenses	\$ 226,138	\$ 340,573
	<u>Total State Income Taxes:</u>	<u>\$ 226,138</u>	<u>\$ 340,573</u>
(F)	<u>Federal Income Taxes</u>		
28	To adjust federal income taxes (rate of 35%) to reflect the impact on income for adjustments to operating revenues and expenses	\$ 1,503,816	\$ 2,264,816
	<u>Total Federal Income Taxes:</u>	<u>\$ 1,503,816</u>	<u>\$ 2,264,816</u>
(G)	<u>Customer Growth</u>		
29	To adjust customer growth for accounting and pro forma adjustments	\$ 56,750	\$ 85,950
	<u>Total Customer Growth</u>	<u>\$ 56,750</u>	<u>\$ 85,950</u>
(H)	<u>Plant in Service</u>		
30	To remove employee clubs	\$ (439,008)	\$ (439,008)
31	To recognize property retirements	(89,126)	(89,126)
32	To increase plant in service for property additions and plant in service	510,491	510,491
33	To increase plant in service for additional CWIP closed to plant	748,895	748,895
	<u>Total Plant in Service</u>	<u>\$ 731,252</u>	<u>\$ 731,252</u>

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2007

<u>Description</u>		<u>Per SCE&G</u>	<u>Per ORS</u>
(I)	<u>Accumulated Depreciation</u>		
34	To remove employee clubs	\$ (104,652)	\$ (104,652)
35	To recognize property retirements	(89,126)	(89,126)
36	To recognize additional CWIP closed to plant	21,352	21,352
37	To annualize depreciation	1,547,626	1,547,626
38	To adjust accumulated depreciation for LNG assets	639,103	639,103
	<u>Total Accumulated Depreciation</u>	<u>\$ 2,014,303</u>	<u>\$ 2,014,303</u>
(J)	<u>CWIP</u>		
39	To decrease CWIP for property additions closed to plant in service	\$ (510,491)	\$ (510,491)
40	To decrease CWIP for additional CWIP closed to plant in service	(592,612)	(592,612)
	<u>Total CWIP</u>	<u>\$ (1,103,103)</u>	<u>\$ (1,103,103)</u>
(K)	<u>Deferred Debits/Credits</u>		
41	To annualize other post employment benefits	\$ 6,275	\$ 6,275
	<u>Total Deferred Debits/Credits</u>	<u>\$ 6,275</u>	<u>\$ 6,275</u>
(L)	<u>Regulatory Assets</u>		
42	To adjust regulatory assets for amortization expense associated with propane air plant retirement	\$ (151,109)	\$ (151,109)
	<u>Total Regulatory Assets</u>	<u>\$ (151,109)</u>	<u>\$ (151,109)</u>
(M)	<u>Working Capital</u>		
43	To adjust cash working capital	\$ 311,470	\$ 26,371
	<u>Total Working Capital</u>	<u>\$ 311,470</u>	<u>\$ 26,371</u>
(N)	<u>Operating Revenues for Proposed Increase</u>		
44	To adjust revenues for the proposed increase	\$ 6,868,824	\$ 4,555,622
	<u>Total for Proposed Increase</u>	<u>\$ 6,868,824</u>	<u>\$ 4,555,622</u>
(O)	<u>Taxes Other Than Income</u>		
45	To adjust gross receipts tax for the proposed increase	\$ 35,745	\$ 23,707
	<u>Total Taxes Other Than Income</u>	<u>\$ 35,745</u>	<u>\$ 23,707</u>

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2007

<u>Description</u>		Per SCE&G	Per ORS
(P)	<u>State Income Taxes for Proposed Increase</u>		
46	To adjust state income taxes (rate of 5%) to reflect the impact on income for adjustments to operating revenues and expenses related to the proposed increase	\$ <u>341,654</u>	<u>226,596</u>
	<u>Total State Taxes for Proposed Increase</u>	\$ <u>341,654</u>	\$ <u>226,596</u>
(Q)	<u>Federal Income Tax for Proposed Increase</u>		
47	To adjust federal income taxes (rate of 35%) to reflect the impact on income for adjustments to operating revenues and expenses related to the proposed increase	\$ <u>2,271,999</u>	\$ <u>1,506,862</u>
	<u>Total Federal Income Tax for Proposed Increase</u>	\$ <u>2,271,999</u>	\$ <u>1,506,862</u>
(R)	<u>Customer Growth</u>		
48	To adjust customer growth for adjustments to operating revenues and expenses related to the proposed increase	\$ <u>87,662</u>	\$ <u>58,141</u>
	<u>Total Customer Growth for Proposed Increase</u>	\$ <u>87,662</u>	\$ <u>58,141</u>

South Carolina Electric & Gas Company
Weighted Cost of Capital
As of March 31, 2007

			Regulatory Per Books				As Adjusted				After Proposed Increase			
Description	Capital Structure	Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 2,096,488,400	44.26%	\$ 168,134,909	6.23%	2.76%	\$ 10,474,805	\$ 167,026,365	6.23%	2.76%	\$ 10,405,743	\$ 167,026,365	6.23%	2.76%	\$ 10,405,743
Preferred Stock	114,558,800	2.42%	9,193,097	6.41%	0.16%	589,278	9,132,485	6.41%	0.16%	585,392	9,132,485	6.41%	0.16%	585,392
Common Equity	2,525,737,686	53.32%	202,552,041	6.66%	3.55%	13,480,474	201,216,579	8.83%	4.70%	17,776,330	201,216,579	10.25%	5.46%	20,632,928
Totals	\$ 4,736,784,886	100.00%	\$ 379,880,047		6.47%	\$ 24,544,557	\$ 377,375,430		7.62%	\$ 28,767,465	\$ 377,375,430		8.38%	\$ 31,624,063

South Carolina Electric & Gas Company
Operating Experience - Total Gas
For the Test Year Ended March 31, 2007

<u>Description</u>	<u>Per Regulatory Books</u>	<u>ORS Accounting & Pro Forma Adjustments</u>	<u>As Adjusted</u>	<u>Proposed Increase</u>	<u>Total After Proposed Increase</u>
<u>Operating Revenues</u>	\$ 503,991,448	\$ 10,831,056 (A)	\$ 514,822,504	\$ 4,555,622 (N)	\$ 519,378,126
<u>Operating Expenses:</u>					
O&M Expenses - Cost of Gas	384,467,229		384,467,229		384,467,229
O&M Expenses - Other	56,038,431	210,968 (B)	56,249,399		56,249,399
Dep. & Amort. Expenses	18,033,979	2,294,879 (C)	20,328,858		20,328,858
Taxes Other Than Income	12,806,433	1,582,862 (D)	14,389,295	23,707 (O)	14,413,002
State Income Taxes	896,808	340,573 (E)	1,237,381	226,596 (P)	1,463,977
Federal Income Taxes	7,577,119	2,284,816 (F)	9,841,935	1,506,862 (Q)	11,348,797
<u>Total Operating Expenses</u>	479,819,999	6,694,098	486,514,097	1,757,165	488,271,262
<u>Total Operating Income</u>	24,171,449	4,136,958	28,308,407	2,798,457	31,106,864
Customer Growth	502,174	85,950 (G)	588,124	58,141 (R)	646,265
Interest on Customer Deposits	(129,066)	-	(129,066)		(129,066)
<u>Net Income for Return</u>	24,544,557	4,222,908	28,767,465	2,856,598	31,624,063
<u>Rate Base:</u>					
Gross Plant in Service	635,557,516	731,252 (H)	636,288,768		636,288,768
Reserve for Depreciation	265,805,762	2,014,303 (I)	267,820,065		267,820,065
Net Plant in Service	369,751,754	(1,283,051)	368,468,703		368,468,703
Construction Work in Process	11,014,867	(1,103,103) (J)	9,911,764		9,911,764
Accum. Deferred Income Taxes	(42,958,935)		(42,958,935)		(42,958,935)
Environmental Costs	2,519,137		2,519,137		2,519,137
OPEB's	(10,132,213)	6,275 (K)	(10,125,938)		(10,125,938)
Reg. Asset for Unrcvrd PAP	2,042,563	(151,109) (L)	1,891,454		1,891,454
Injuries & Damages	(726,904)		(726,904)		(726,904)
Materials & Supplies	56,720,041		56,720,041		56,720,041
Total Working Capital	7,004,804	26,371 (M)	7,031,175		7,031,175
Prepayments	(1,547,545)		(1,547,545)		(1,547,545)
Average Tax Accruals	(6,680,661)		(6,680,661)		(6,680,661)
Customer Deposits	(7,126,861)		(7,126,861)		(7,126,861)
<u>Total Rate Base</u>	379,880,047	(2,504,617)	377,375,430	-	377,375,430
<u>Rate of Return</u>	6.46%		7.62%		8.38%
<u>Return on Common Equity</u>	6.66%		8.83%		10.25%

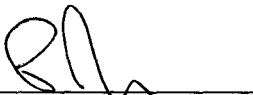
BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-157-G

IN RE:)	
Application of South Carolina Electric and Gas)	CERTIFICATE OF
Company to Have the Terms of the Natural Gas Rate)	SERVICE
Stabilization Act Apply to the Company's Rates and)	
Charges for Gas Distribution Services)	

This is to certify that I, Pamela J. McMullan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **2007 AUDIT REPORT** in the above-referenced matter to the person(s) named below by causing said copy to be e-mailed as well as deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Catherine D. Taylor, Esquire
K. Chad Burgess, Esquire
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Columbia, SC 29201

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Columbia, SC 29202



Pamela J. McMullan

September 4, 2007
Columbia, South Carolina